

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
AUDIT COMMITTEE

OPEN SESSION

Friday, January 29, 2010
11:23 a.m.

Legal Services Corporation
3333 K Street, N.W.
3rd Floor Conference Center
Washington, D.C. 20007

COMMITTEE MEMBERS PRESENT:

- Herbert S. Garten, Chairman
- Jonann C. Chiles
- Thomas R. Meites
- Frank B. Strickland, ex officio

OTHER BOARD MEMBERS PRESENT:

- Thomas A. Fuentes
- Michael D. McKay
- Laurie Mikva
- Bernice Phillips-Jackson

1 STAFF AND PUBLIC PRESENT:

Victor M. Fortunato, Interim President and General Counsel

2 Karen M. Dozier, Executive Assistant to the President

3 David L. Richardson, Treasurer and Comptroller, Office
4 of Financial and Administrative Services

5 Patricia Batie, Acting Corporate Secretary and FOIA
Officer, Office of Legal Affairs

6 Katherine Ward, Executive Assistant, Office of Legal
7 Affairs

8 Mattie Cohan, Senior Assistant General Counsel, Office
of Legal Affairs

9 Mark Freedman, Senior Assistant General Counsel, Office
10 of Legal Affairs

11 Karen J. Sarjeant, Vice President for Programs & Compliance

12 Charles Jeffress, Chief Administrative Officer

13 Jeffrey E. Schanz, Inspector General

14 Joel Gallay, Special Counsel to the Inspector General,
Office of the Inspector General

15 Laurie Tarantowicz, Assistant Inspector General and
16 Legal Counsel, Office of the Inspector General

17 Ronald "Dutch" Merryman, Assistant Inspector General
for Audit, Office of the Inspector General

18 Thomas Hester, Associate Counsel, Office of the
19 Inspector General

20 Daniel Sheahan, Program Evaluation Analyst, Office of
the Inspector General

21 David de la Tour, Program Counsel III, Office of
22 Compliance and Enforcement

1 STAFF AND PUBLIC PRESENT (Cont'd):

2 Stephanie Edelstein, Monica Holman Evans,
Charles Greenfield, & Evora A. Thomas,

3 Program Counsel III, Office of Program Performance

4 John Constance, Director, Government Relations and
Public Affairs Office

5

Sean Driscoll, Special Assistant, Government Relations
and Public Affairs Office

6

7 Stephen Barr, Media Relations Director, Government
Relations and Public Affairs Office

8

Kathleen Connors, Executive Assistant, Government
Relations and Public Affairs Office

9

10 Alice C. Dickerson, Director, Office of Human Resources

11 Atitaya Pratoomtong, Law Clerk, Office of Legal Affairs

12 Lauren Hersey, Law Clerk, Office of Legal Affairs

13 Charles N.W. Keckler, Board Nominee

14 Julie A. Reiskin, Board Nominee

15 Uzma Malek-Dorman, Thompson, Cobb, Bazilio & Associates

16 Sunanda Oung, Thompson, Cobb, Bazilio & Associates

17 Don Saunders, National Legal Aid and Defenders

Association (NLADA)

18

Erik L. Barron, Standing Committee on Legal Aid &

19 Indigent Defendants (SCLAID), American Bar

Association

20

Linda Perle, Center for Law & Social Policy (CLASP)

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P R O C E E D I N G S

(11:23 a.m.)

CHAIRMAN GARTEN: Good morning. We'd like to start the meeting of the audit committee. And first of all, I apologize for the delay in bringing you all here together. But unfortunately, we had to conclude some other business.

I am Herb Garten, chair of the audit committee. And the other members of the committee are Tom Meites, sitting to my left, your right, and Jonann Chiles. The three of us welcome you. And I presume that the other members of the board that are here, would you please introduce yourself, please?

MS. PHILLIPS-JACKSON: I'm Bernice Phillips-Jackson.

MR. FUENTES: I'm Tom Fuentes from California.

MS. MIKVA: Laurie Mikva.

MR. MCKAY: Mike McKay.

MR. STRICKLAND: Frank Strickland.

CHAIRMAN GARTEN: And the interim president of LSC.

I presume that we've circulated a paper that

1 would indicate to the reporter the other people who are
2 present here today. If not, will staff please -- it
3 has been done? Thank you.

4 All right. I would ask that we now go to the
5 agenda and ask for approval of it from one of the
6 committee monitors.

7 M O T I O N

8 MR. MEITES: So move.

9 MS. CHILES: Second.

10 CHAIRMAN GARTEN: Okay. So approved.

11 We have as the second item on the agenda the
12 approval of the minutes of the committee's open session
13 meeting of October 30, 2009. May I have a motion?

14 M O T I O N

15 MR. MEITES: So moved.

16 MS. CHILES: Second.

17 CHAIRMAN GARTEN: And approved.

18 No. 3, approval of the minutes of the audit
19 and finance committee's open session joint meeting of
20 November 30, 2009.

21 M O T I O N

22 MR. MEITES: So moved.

1 MR. MERRYMAN: Second.

2 CHAIRMAN GARTEN: And so approved.

3 At this point we're going to present the
4 fiscal year 2009 annual financial report and audit that
5 was done of it. And I asked for Ronald "Dutch"
6 Merryman, assistant inspector general, and Uzma
7 Malik-Dorman of Thompson, Cobb, Bazilio & Associates,
8 our independent CPA, to introduce themselves and
9 identify themselves.

10 MR. MERRYMAN: Yes, sir. Thank you, sir.
11 Ronald Merryman, the assistant inspector general for
12 audit for LSC.

13 MS. MALIK-DORMAN: Uzma Malik-Dorman,
14 engagement partner from Thompson, Cobb, Bazilio &
15 Associates.

16 CHAIRMAN GARTEN: Thank you for being with us
17 today. At this point, would you, Dutch, advise the
18 board and committee of where we stand with respect to
19 what has been issued? And then we'll have Uzma, if she
20 will, respond to questions or give us a general
21 overview of the report for the fiscal year.

22 MR. MERRYMAN: Yes, sir. Thank you. Once

1 again, the opinion for LSC on the financial statement
2 is an unqualified opinion. There were no material
3 misstatements, and it accurately reflected the
4 activities of the organization. Also, internal
5 controls over financial reporting with no major
6 or -- no significant or material deficiencies.

7 There were several things that are contained
8 in a management letter to consider. Again, these are
9 minor. They didn't rise to the level of being
10 significant or material to impact the overall opinion.

11 Also this year, the audit team looked at the
12 generally accepted accounting procedures that were
13 being used, and based on the research that they did,
14 indicated that FASB was the appropriate, as opposed to
15 GASB, and recommended to management that FASB be
16 adopted for this reporting cycle in order to better
17 conform to accounting standards.

18 MR. MEITES: Just if you'd stop there, for the
19 benefit of the audience, could you identify what those
20 two groups are and briefly, very briefly, the
21 difference between the two approaches?

22 MR. MERRYMAN: Very briefly, generally

1 accepted -- the GASB is the government auditing
2 standards, which pertains mainly to local and state
3 entities, governmental entities.

4 FASB, financial auditing standards, pertain to
5 most nonprofits, most nongovernmental agencies. The
6 reporting of information is slightly different, or it
7 is different.

8 There's several major differences, one being
9 that the first one on the governmental side requires an
10 analysis by management, description and analysis, that
11 is included this time only as an optional item, but
12 it's mandated by those standards.

13 The financial standards require a different
14 presentation of information, different classification
15 of information. However, the result about financial
16 activity is the same. It'll disclose the same issues
17 and problems if the statements are materially
18 misstated.

19 CHAIRMAN GARTEN: But basically, bottom line,
20 in this case they're very substantially similar, as I
21 understand it?

22 MR. MERRYMAN: The result is the same.

1 MS. MALIK-DORMAN: Right.

2 MR. MERRYMAN: The presentation of information
3 is different.

4 CHAIRMAN GARTEN: So bottom line, basically
5 the same?

6 MS. MALIK-DORMAN: The numbers were not
7 impacted; really, just the way you present the
8 information in your financial statements and footnote
9 disclosures. Because, you know, GASB, being the
10 Government Accounting Standards Board, is totally
11 different than FASB, which is the Financial Accounting
12 Standards Board that sets the standards for nonprofits,
13 commercial entities, and some others.

14 CHAIRMAN GARTEN: And our prior financial
15 statements prepared by another accounting firm did use
16 GASB. And you all recommended to change to the FASB
17 reporting. Is that correct?

18 MS. MALIK-DORMAN: Yes. In fact, prior to
19 2002, LSC did use FASB, the FASB model, appropriately.
20 When the new auditors came on board, they recommended
21 GASB. But in our opinion, because LSC is not a state
22 or local governmental entity or related to any such

1 entity, that FASB should be used. GASB is our
2 standards for strictly state and local governments.

3 MR. MEITES: Is this something we have to
4 consider every year --

5 MS. MALIK-DORMAN: No.

6 MR. MEITES: -- or will you keep using FASB
7 until you tell us you think we should consider it
8 again?

9 MS. MALIK-DORMAN: No. It should be used
10 consistently. One thing you may want to -- and we did
11 a white paper and gave it to OIG and management on the
12 accounting standards. And, you know, there's actually
13 three sets of bodies. We didn't mention one other.
14 And that body is called FASAB, and they establish
15 standards for federal entities.

16 Now, because they're more of a new body -- I
17 guess in the last ten years -- they are still in the
18 process of, you know, providing more authoritative
19 guidance on federal entities, and then also federally
20 related entities.

21 So in the future, we've recommended that, you
22 know, LSC follow FASAB and what they're doing, you

1 know, the research and technical projects they're
2 working on because at some point, you may be
3 required -- or not required; you know, it might be your
4 best choice because of the nature of the entity.

5 So, you know, that white paper, you know,
6 management and OIG has. So I think that's something
7 that the board, you know, should consider looking at.

8 CHAIRMAN GARTEN: Thank you. Among the
9 material the committee has, and which will be presented
10 to the board, is the financial statement and your
11 independent auditor's report, year-end at September 30,
12 2009. That is complete. It's been issued?

13 MS. MALIK-DORMAN: Yes. We issued a clean
14 opinion.

15 CHAIRMAN GARTEN: All right. Do you want to
16 very briefly advise us -- or Dutch, if you would like
17 to do it, either one of you -- of the results of this
18 report?

19 MS. MALIK-DORMAN: Sure. I believe on page 15
20 is where our reports begin. We're required to do our
21 financial statement audit in accordance with generally
22 accepted auditing standards and also government

1 auditing standards, based on the nature of the entity.

2 And so the first report on page 15, you'll
3 see, is a report --

4 CHAIRMAN GARTEN: When you're referring to
5 page 15, you're referring to a book, not your
6 statement?

7 MR. MERRYMAN: Correct. The board book.

8 MS. MALIK-DORMAN: The board book. I'm sorry.

9 CHAIRMAN GARTEN: Okay.

10 MS. MALIK-DORMAN: And you'll see that our
11 pages have different numbers, too. So I'm looking at
12 the page numbers at the bottom.

13 CHAIRMAN GARTEN: Which is the board book.

14 MR. MERRYMAN: In the board book.

15 MS. MALIK-DORMAN: Yes. In the board book,
16 yes. So this is the report that we issued in
17 accordance with government auditing standards. And
18 that addresses internal controls over financial
19 reporting, and also compliance and other matters,
20 compliance relating to laws, regulations, and so forth.

21 We did issue a clean opinion on the internal
22 control over financial reporting and compliance. And

1 that means that we didn't identify any significant
2 deficiencies or material weaknesses in internal
3 control.

4 Now, this report, and you'll see in your board
5 book on page 16, refers to another letter that we
6 reported to management of LSC. And that's after, I
7 believe, the financial statements. And that's a
8 separate letter that includes control deficiencies and
9 other matters that we don't consider to be that
10 serious. They're not significant deficiencies.
11 They're not material weaknesses. So they're just
12 recommendations for you to improve your controls and
13 operating efficiency.

14 MR. MERRYMAN: Page 53 is the cover to the
15 appendix A, and then the findings follow on page 54.

16 MS. CHILES: Dutch, who prepared management's
17 responses to the deficiencies?

18 MS. MALIK-DORMAN: Management prepared those.
19 And it depends on the department that was impacted, so
20 there's a combination. I know the comptroller's shop
21 did some, and then there was OCE for one of them. So
22 it really depends on the finding.

1 MS. CHILES: Okay. I appreciate the fact that
2 the deficiencies were not material. Nonetheless, they
3 are deficiencies, and some of them caught my attention.

4 And I would like to see a more thorough
5 response from management as to what the plan is to
6 Correct those deficiencies.

7 MR. FORTUNO: We can do so and will do so.

8 MS. CHILES: Great. Thank you. And that part
9 of the report was very helpful, by the way.

10 MS. MALIK-DORMAN: Oh, thank you so much. We
11 try to add value, not just crunch numbers, when we're
12 doing the financial statement audit. So, you know, we
13 reviewed, you know, many areas, key areas of the
14 operation and accounting and financial reporting
15 processes.

16 And so we came up with these observations, and
17 thought it would be helpful to the audit committee and
18 the entire board.

19 MS. CHILES: It was very helpful. Thank you.

20 MS. MALIK-DORMAN: Sure.

21 CHAIRMAN GARTEN: This letter that you
22 included is analogous to the management report you have

1 for other organizations?

2 MS. MALIK-DORMAN: Yes. Management letters,
3 generally we've kind of -- standards are changing, so
4 there's a newer standard out. It's Statement on
5 Auditing Standards No. 115 that changes how we report
6 deficiencies.

7 So, you know, we don't really call it
8 management letter any more. But yes, it's similar.

9 CHAIRMAN GARTEN: Okay. And what about of the
10 actual operations report, a summary of that? What our
11 income --

12 MS. MALIK-DORMAN: Oh, okay. Yes. So that
13 report, the cover of that starts in your board book on
14 page 17. And this is the actual report on the
15 financial statements. And, you know, we issued a clean
16 opinion, and that opinion begins on page 19.

17 Your financial statements start on page 21.
18 You have a statement of financial position, which is
19 basically a balance sheet of the entity as of
20 September 30, 2009. And then you also have a statement
21 of activities, which typically is known as an income
22 statement. Statement of cash flows is on page 23 of

1 your board book.

2 And following those statements, there are
3 notes to the financial statements that describe
4 background of the entity, and also a summary of the
5 significant accounting policies that are used.

6 And, you know, the most significant item is
7 the prior year restatement note 12, which is on page 31
8 of your board book. And that's where we've described
9 the change in accounting standards and the impact.

10 So those were the key items there. And if
11 anyone has, you know, questions on the financial
12 statements or notes, let me know.

13 CHAIRMAN GARTEN: I would recommend to the new
14 board members that these footnotes and the statements
15 themselves could be of great help in understanding the
16 manner in which we report revenues and disbursements.

17 Dutch, do you have anything you want to add to
18 this?

19 MR. MERRYMAN: I do not at this time, sir.

20 CHAIRMAN GARTEN: All right. I want
21 to -- yes, Tom?

22 MR. FUENTES: Mr. Chairman, just perhaps a

1 matter of protocol and procedure. This is
2 conveyed -- this report is conveyed officially from the
3 Office of the Inspector General to the board as a
4 whole. And of course, in its coming to the board, it
5 passes through this committee.

6 The cover from the inspector general's office
7 conveys it to the board, and conveys copies to
8 President Fortuno and to the CAO, Charles Jeffress. I
9 would think that both in this committee and at the
10 board level, that we may want to turn to the
11 treasurer/comptroller because in substance, all that we
12 have here refers or reflects the work of that office.

13 So I would like to see in the future that this
14 is conveyed to the board through the treasurer/
15 comptroller as well. This is more a directive or
16 request, respectful request, from a board member to the
17 Office of the Inspector General as opposed to the
18 outside consultant. But I would think that we might
19 have questions -- you might as a committee; we might as
20 a full board -- and I think that that would be the more
21 appropriate protocol in sending this to the board.
22 Thank you.

1 CHAIRMAN GARTEN: I have no problem if the
2 treasurer -- if you would like to ask questions of him
3 or have him report to the board. But I think the
4 protocol of sending it to the board and that this
5 committee consider it the way we are is pretty much
6 covered by our charter and previous history. But I'll
7 take that into consideration, Tom.

8 Do you want to add something to that?

9 MR. MERRYMAN: I was just going to say, as a
10 matter of practice, the comptroller/treasurer does have
11 a copy of this report. We can include that as a formal
12 listing should the committee so decide.

13 CHAIRMAN GARTEN: Well, I don't think we have
14 any problem with that, do we?

15 MS. CHILES: No.

16 CHAIRMAN GARTEN: No. So let's --

17 MR. MEITES: I have one question.

18 CHAIRMAN GARTEN: Yes?

19 MR. MEITES: On page 23 of the board book, if
20 I'm reading this right, at year-end, September 30,
21 2009, we say we have \$77 million. My question is:
22 Where is it?

1 MS. MALIK-DORMAN: There's a note on page 26.

2 MR. MEITES: Hold on.

3 MS. MALIK-DORMAN: Note 2 -- excuse me -- that
4 gives you the breakdown. There's \$41.6 million in cash
5 in the U.S. Treasury, cash in financial institutions,
6 \$36 million, and then a small amount of petty cash of
7 \$2,000.

8 MR. MEITES: We had a discussion earlier about
9 our cash in financial institutions. And I am vaguely
10 aware that for some time, and maybe no longer, there
11 was an unlimited government guarantee of cash in
12 financial institutions, you know, 200,000-whatever.

13 MS. MALIK-DORMAN: 250.

14 MR. MEITES: Is that still in effect?

15 MS. MALIK-DORMAN: Yes. \$250,000, I believe
16 that's still in effect. But that's a temporary. It
17 used to be \$100,000.

18 MR. MEITES: Right. My concern is that if
19 that expires, what protections do we have that the
20 \$36 million in cash that we have in financial
21 institutions is protected?

22 MS. MALIK-DORMAN: It's insured up to the

1 \$250,000. So, you know, there is that risk.

2 MR. MEITES: Well, there is -- but that's my
3 concern, then. And this is really a question for the
4 treasurer as well as the inspector general.

5 I would like for the next meeting, whether it
6 be us or our successors, that we have a breakdown of
7 where this money is, what institutions, and the views
8 of the inspector general and management as to whether
9 any steps should be taken to assure the safety of this
10 money, in addition to whatever is being done now. I'm
11 not for a minute suggesting it's not every bit as safe
12 as my \$3.98.

13 MS. MALIK-DORMAN: Right.

14 MR. MEITES: But it's a lot of money, and it's
15 half of all we have.

16 MS. MALIK-DORMAN: Absolutely. Right. I
17 think it's a great point, especially in this economic
18 climate.

19 MR. MEITES: So if the treasurer and the IG
20 can work together on this, Dutch --

21 MR. MERRYMAN: Yes, sir.

22 MR. MEITES: -- for the next meeting? Thank

1 you.

2 CHAIRMAN GARTEN: I think we had inquired into
3 this previously.

4 MR. MEITES: I just -- we had. But I'd like
5 an update to make sure that --

6 CHAIRMAN GARTEN: Fine. Fine.

7 Yes?

8 MR. RICHARDSON: I found a little information
9 here.

10 MR. FORTUNO: We inquired about it recently,
11 and I think there is information currently available.

12 MR. RICHARDSON: Musical chairs here. For the
13 record, my name is David Richardson. I'm the treasurer
14 of the Corporation.

15 Last year, with the economic crisis, the
16 banking institutions, as long as you're in a
17 non-interest-bearing account, your funds were totally
18 covered by FDIC. That is what we did with our major
19 bank. So while there's -- they are not an
20 interest-bearing account, so they are completely
21 covered by FDIC.

22 The secondary bank the we use, the money is

1 swept into a trust account. That trust account then
2 invests monies in government repurchase agreements. So
3 they are 100 percent vested in the full faith and
4 credit of the government at all times.

5 MR. MEITES: And the guarantee still exists
6 for non-interest-bearing accounts, the unlimited
7 guarantee?

8 MR. RICHARDSON: It does not. It capped off
9 at \$250,000 this year. And the major bank that we deal
10 with has opted out of that because the FDIC is charging
11 additional insurance fees. So we are sweeping them
12 into additional government-backed securities so that we
13 will have secure funds.

14 MR. MEITES: Okay. Perhaps at the -- I just
15 sprung this; I don't expect any details. But at the
16 next meeting, if you could have like a snapshot of
17 where they are at the most recent month you have
18 numbers for?

19 MR. RICHARDSON: I'll be glad to.

20 MR. MEITES: Thank you.

21 CHAIRMAN GARTEN: Thank you.

22 Yes, Mike?

1 MR. McKAY: And I know I'm not on the
2 committee, but I had a question as I read through this
3 report.

4 Inviting your attention to page 56 of our
5 board book, I'd like to ask our outside auditor this
6 question. And I recognize that this is a deficiency
7 that's not material, but it's a concern I have as a
8 board member.

9 You invited our attention to the fact -- I
10 guess it's an admitted fact -- that, first, our manual
11 requires someone at LSC to initial check stubs as
12 evidence of review and approval for check payments.
13 And apparently, we had not been doing that. And
14 according to your folks, this increased the risk of
15 errors. And you recommended that we essentially follow
16 our own accounting manual and initial those stubs.

17 I looked at our response, and our response
18 was, well, we don't need to initial the stubs because
19 we send an e-mail saying that it was approved. And so
20 LSC's management response was, we don't need to follow
21 our own guidelines; an e-mail is sufficient.

22 Of all the responses, this is the only one

1 that I read from management that essentially disputed
2 your finding. But I didn't see a response from you.
3 So I'm wondering what your thought is on that, on
4 management's response.

5 MS. MALIK-DORMAN: Well, we typically don't do
6 a response if, you know, this response doesn't really
7 agree with our finding. Management believes that they
8 have adequate controls in place.

9 But I would have eliminated this, but I'm
10 still going with the recommendation. I would have
11 eliminated the finding if I thought, you know, that I
12 agreed with the response.

13 MR. MEITES: So you think that the check stubs
14 should still be initialed?

15 MS. MALIK-DORMAN: Check runs, yes.

16 MR. MEITES: Check runs. So, then, it seems
17 to me that either, A, we change our policy, or ask
18 staff to follow our own policy.

19 CHAIRMAN GARTEN: David, do you want -- I
20 agree. David, do you want to respond to that?

21 MR. RICHARDSON: Yes, sir. The check runs
22 that Uzma is talking about is when we do month-to-month

1 funding, which last year was two checks a month. So we
2 get the e-mail to approve the release of the money; we
3 have a signoff on the posting of the checks, we print
4 the checks, and go out. But we did not print -- did
5 not sign the print run report.

6 After discussing this additional step with
7 Uzma, we have changed our internal policies to sign the
8 check run report, even when it's one or two checks that
9 we're doing.

10 CHAIRMAN GARTEN: Thank you. That satisfies
11 it.

12 MR. MEITES: That certainly satisfies me. I
13 guess I'm concerned, then, that we now have a report
14 that essentially says that management disagrees with
15 the finding. I sure wish there was a way we could
16 change that because I'd like to see either, A, we
17 disagree and here's why, or B, we accept your
18 recommendation and we executed it. But I guess it's
19 too late or --

20 MS. MALIK-DORMAN: No. It's never too late.
21 I mean, that's any easy change.

22 MR. MEITES: Okay. Good. Well, then, I would

1 like to have it a matter of record that we accept the
2 recommendation and are executing it.

3 MR. MERRYMAN: While it's an easy change, I
4 don't know how easy it is to get the report in
5 everybody's hands who already has it to note the
6 change. That's the problem, because this has been
7 issued final.

8 CHAIRMAN GARTEN: Yes. What has been the
9 distribution of this report?

10 MR. MERRYMAN: The distribution has been to
11 the board. And as we're required to, we post the
12 reports on our website. We have no way of knowing how
13 many people downloaded the report.

14 CHAIRMAN GARTEN: All right. Is it possible
15 to send out an announcement on the website of this one
16 change?

17 MR. MERRYMAN: We can tie a supplemental
18 report to that file and alert people there is a change.
19 But we wouldn't be able to guarantee that every report
20 out there -- you know, that the change would follow.
21 So we can't do that.

22 CHAIRMAN GARTEN: Well, my question --

1 MR. MEITES: That would be just great. I just
2 want the record to be clear that we're taking this
3 stuff seriously.

4 MR. MERRYMAN: I think --

5 CHAIRMAN GARTEN: So you'd be satisfied with
6 that?

7 MR. MEITES: Yes.

8 MS. CHILES: Yes.

9 CHAIRMAN GARTEN: All right. We're
10 satisfied --

11 MR. MERRYMAN: Whatever supplemental
12 information we get, we'll post on the website.

13 CHAIRMAN GARTEN: Yes. So as you all redo
14 this --

15 MS. MALIK-DORMAN: So we will get the new
16 response and then change it.

17 CHAIRMAN GARTEN: All right. Good. Thank
18 you, Mike. That's a very good question.

19 Anybody else?

20 (No response.)

21 CHAIRMAN GARTEN: All right. Before moving to
22 the next item, I don't think this is -- this will be

1 discussed at the board member, Frank. And do you want
2 a resolution on this from the committee, that -- I
3 don't think you need it.

4 MR. STRICKLAND: How do you normally -- I've
5 forgotten. How do you normally bring that, the report,
6 forward to the board?

7 CHAIRMAN GARTEN: It's part of the agenda.

8 MR. STRICKLAND: Right. But when you present
9 your report --

10 CHAIRMAN GARTEN: All right. We'll say that
11 our committee reviewed it. We discussed it. We had
12 questions.

13 MR. STRICKLAND: Proceed with it, and we
14 recommend it.

15 CHAIRMAN GARTEN: And we recommend it. Is
16 that satisfactory? Okay. The counsel -- pardon me.
17 The president has indicated that's the way to do it.

18 All right. Can we move on to our next item?
19 We are moving item 5 to after the inspector general's
20 briefing, at the request of management.

21 No. 6, which will be 5: Staff report on the
22 classification of LSC consultants. Now, Vic, some of

1 this would be on the open and some of it would be in
2 closed session. What is your recommendation?

3 MR. FORTUNO: No. We don't have a closed
4 session scheduled. It's just an open session agenda
5 item. It will actually be very short. And it
6 essentially will be a report that we are about to file
7 the SS-8s, and we'll be notifying the affected
8 employees.

9 CHAIRMAN GARTEN: Fine. Mattie, will you
10 please identify yourself?

11 MS. COHAN: Yes. For the record, my name is
12 Mattie Cohan. I'm senior assistant general counsel at
13 LSC. My report on this is just what Vic said. I'll
14 make it one more sentence just so I feel like I've
15 actually given a report.

16 Management has compiled -- staff has compiled
17 the SS-8s. The packages have been signed from here and
18 compiled and sent over to counsel for their final
19 review. IF they have no changes that they need us to
20 make, they will be filing them directly with the IRS
21 next week.

22 If they have any -- if counsel has any

1 recommendations back for us, they will get them back to
2 us and we'll do what we need to do. As soon as the
3 filings have been made with the Internal Revenue
4 Service, letters will go out to all of the consultants
5 informing them that the SS-8s have been filed.

6 CHAIRMAN GARTEN: And briefly, it's just
7 asking the IRS to confirm the classification for us?

8 MS. COHAN: Correct.

9 CHAIRMAN GARTEN: All right. Any questions
10 from any board members?

11 (No response.)

12 CHAIRMAN GARTEN: Okay. Thank you for your
13 report.

14 MR. FORTUNO: Very well done, Mattie.

15 (Laughter.)

16 CHAIRMAN GARTEN: Item 7, which is now 6,
17 report on LSC's 403(b) plan performance. And Charles,
18 identify yourself, please.

19 MR. JEFFRESS: Thank you, Mr. Chairman.
20 Charles Jeffress, the chief administrative officer for
21 LSC.

22 CHAIRMAN GARTEN: All right. Would you, to

1 begin with, identify what we're referring to when we
2 talk about the LSC's 403(b) plan?

3 MR. JEFFRESS: Yes, sir. In lieu of a
4 retirement system for the Corporation, LSC has a 403(b)
5 plan, which is board-approved, and changed providers
6 for two years ago. It allows employees to contribute a
7 portion of their income to the plan for retirement
8 purposes. LSC contributes a portion of salary for
9 retirement purposes. LSC will also match a portion of
10 what the employee contributes for retirement purposes.

11 So each employee owns their account in this
12 403(b) plan. The accounts are not owned by the
13 Corporation. They are employee accounts, and employees
14 vest at different rates depending on how long they have
15 been here.

16 So rather than being a retirement plan that
17 the Corporation is responsible for and pays from, they
18 are -- these are individual accounts within a 403(b)
19 plan the Corporation contributes to and creates funds
20 for employees' retirement purposes.

21 CHAIRMAN GARTEN: And basically, it's similar
22 to what a 401 plan would be for a profit-making --

1 MR. JEFFRESS: In other situations, they might
2 be referred to as a 401(k), organized under a different
3 part of the IRS rules.

4 CHAIRMAN GARTEN: All right. Proceed.

5 MR. JEFFRESS: At the last meeting, this
6 committee asked for some kind of report on how our
7 403(b) plan investments were doing because of the
8 financial crisis and how things were happening
9 generally in the financial markets.

10 Beginning on page 75 of the board book, you'll
11 find a memorandum from me, and then two pages
12 of -- excuse me, three pages of information provided by
13 our 403(b) plan provider that shows the performance of
14 the funds that are in our plan.

15 Generally, all of the funds have recovered
16 from the worst of the crisis, and once again are
17 performing well. Of the 23 funds that are in the plan,
18 there is one that is on a watch list that it is perhaps
19 not performing as well as we would like. We're
20 watching to see whether it will improve. They had a
21 very good quarter this last quarter, and so it's our
22 expectation that they will improve and we will keep

1 that in the plan.

2 On page 76 is a listing of every fund in the
3 plan. And that lists the value, how much money LSC
4 employees have in those in each fund. And then the
5 percentages, it shows you within that fund -- within
6 that category of funds -- what percentage of
7 investments are in each account in that category.

8 And the last column over on the right shows
9 you how many employees at LSC are utilizing each of the
10 funds within the plan. Employees can choose how to
11 distribute this funds according -- their investments
12 according to these funds, and they can choose to put as
13 much or as little in each of these funds as they
14 desire.

15 So that page 76 gives you a listing of the
16 funds in our plan and how our employees have chosen to
17 invest their funds across those different options.

18 The next two pages, 77 and 78 --

19 CHAIRMAN GARTEN: You missed on that one
20 page --

21 MR. JEFFRESS: Yes?

22 CHAIRMAN GARTEN: -- the total invested on

1 behalf of the employees participating in this plan is
2 \$12,154,492.

3 MR. JEFFRESS: That's correct.

4 CHAIRMAN GARTEN: The values as of 1/11/2010,
5 have the employees been given their year-end reports?

6 MR. JEFFRESS: Those are mailed directly to
7 employees. I received mine. I'm presuming everyone
8 else has received theirs as well.

9 CHAIRMAN GARTEN: Good. Thank you. Continue.

10 MR. JEFFRESS: On page 77 of your board book
11 lists the performance of each of the funds in the plan.
12 You have there the name of the fund, the category,
13 their ticker listing, their audited expense ratio. But
14 the columns I would point you to are the next two
15 columns, the total return in the past quarter and then
16 the total return over 12 months.

17 We were concerned at the last meeting with the
18 return for the past three years. And you see the next
19 column shows that most of the funds had negative
20 returns over the three-year period, which was typical,
21 of course, of all the financial funds at the time.

22 But you'll also see for the past 12 months

1 there's been significant recovery amongst most of the
2 funds. And that recovery has continued in the last
3 quarter.

4 MR. MEITES: I have a number of questions.

5 CHAIRMAN GARTEN: All right. Tom?

6 MR. MEITES: Unfortunately, I do this in my
7 day job. I sue trustees of 401(k) plans. And I don't
8 like being a trustee of a 401(k) plan because I know
9 all the obligations we have. So I'm going to ask you a
10 series of questions in furtherance of fulfilling our
11 obligations as a 401 -- or 403 plan trustee.

12 We delegate the selection of investment
13 alternatives, do we not, to our -- First America?

14 MR. JEFFRESS: Yes. We selected First America
15 based on the presentation they made to us of how they
16 select funds. And they do the selection.

17 MR. MEITES: And they actually make the
18 selection?

19 MR. JEFFRESS: They select the options.

20 MR. MEITES: But it is our obligation to
21 review the adequacy of the job they're doing, is it
22 not?

1 MR. JEFFRESS: Yes.

2 MR. MEITES: Now, you mention on page 75 that
3 one fund is being considered for omission or deletion
4 from the alternatives. That's the last sentence of the
5 third full paragraph. Do you see that?

6 MR. JEFFRESS: Yes. We've placed it on a
7 watch list.

8 MR. MEITES: And it was placed on the watch
9 list by First America. Isn't that right?

10 MR. JEFFRESS: That's correct.

11 MR. MEITES: And why did they do that?

12 MR. JEFFRESS: Because the return up
13 through -- it was placed on the watch list last fall
14 because their return was not what we expected or what
15 we wanted. They were told it was placed on a watch
16 list. And checking this month, their return, as shown
17 on the next page, has been significantly higher than
18 others. So they had a very good quarter the last
19 quarter of the year.

20 So we still have them on the watch list. But
21 they were placed on the watch list a quarter ago
22 because of their performance up to that time.

1 MR. MEITES: Now, you are our interface with
2 First America, aren't you?

3 MR. JEFFRESS: I am. We have a benefits
4 manager who is, on a daily basis, in closer touch with
5 them.

6 MR. MEITES: But in terms of keeping track of
7 what alternatives are offered to our employees, you are
8 the person who is responsible for keeping on top of
9 that, aren't you?

10 MR. JEFFRESS: Yes. The account manager, our
11 HR director, and I review this periodically.

12 MR. MEITES: And part of your job is to inform
13 us --

14 MR. JEFFRESS: Yes.

15 MR. MEITES: -- whenever there is an
16 investment alternative that a question has been raised
17 about. Isn't that right?

18 MR. JEFFRESS: That's correct.

19 MR. MEITES: And you do that?

20 MR. JEFFRESS: As I am today, yes.

21 MR. MEITES: And if there's any other
22 investment alternative, or indeed anything to do with

1 the performance of either First America or the
2 investment alternatives, you understand it's your job
3 to keep us informed of that?

4 MR. JEFFRESS: That's correct.

5 MR. MEITES: And as far as you know, you have
6 kept us informed of it?

7 MR. JEFFRESS: I believe I have. I believe
8 this is a good report to you, and I believe this should
9 be a regular part of the audit committee's --

10 MR. MEITES: Oh, essential. At least
11 quarterly, we should have a report like that. Is that
12 doable?

13 MR. JEFFRESS: It certainly is. These are
14 monthly. These reports that are on page 77 and 78 are
15 available monthly. We'll certainly get them to you at
16 least quarterly.

17 MR. MEITES: Well, I think quarterly should
18 do, or at least -- at least at every board meeting.

19 MR. JEFFRESS: Okay.

20 MR. MEITES: Good. Thank you very much.

21 MR. JEFFRESS: Yes.

22 CHAIRMAN GARTEN: Jonann?

1 MS. CHILES: I have no questions.

2 CHAIRMAN GARTEN: Any other board members have
3 any questions?

4 MR. McKAY: I'm on Tom's side.

5 (Laughter.)

6 MR. JEFFRESS: Mr. Chairman, if I could
7 mention two other things with respect to our 403(b)
8 plan just for the committee's information. This year
9 we, and every other organization that has a 403(b)
10 plan, are required to have that plan audited. It is a
11 new requirement. Audits of 403(b) plans have not been
12 required in the past.

13 We are in the process of developing an RFP for
14 the selection of an auditor to do that. What goes in
15 the RFP is under some discussion, not only at our
16 operation but -- and everybody else is trying to figure
17 out how to do an audit of a 403(b) plan.

18 But I do expect to be coming back -- and we'll
19 work with the IG on how best to put an RFP out for
20 auditors. But I expect to be coming back to this
21 committee perhaps as early as next meeting but
22 certainly by the July meeting with a proposal on how we

1 do an audit of our 403(b) plan.

2 CHAIRMAN GARTEN: Yes. I might recommend that
3 you take a look at the one that was used by the IG, as
4 amended, as I spoke about earlier today.

5 MR. JEFFRESS: Right. We will use that as the
6 basis. But because the 403(b) plan has different kinds
7 of investments than our normal income/expense audit,
8 it's going to be a slightly different audit.

9 CHAIRMAN GARTEN: Well, it has to be
10 very -- and I'm sure there's plenty of material out
11 there on what's to be included in it.

12 MR. JEFFRESS: Right. And we're working to
13 try to get the best possible RFP for it.

14 CHAIRMAN GARTEN: Is there anything else you
15 want to apprise of us?

16 MR. JEFFRESS: And the second point that I
17 would mention: At the last meeting, as you will
18 recall, this committee recommended to the board and the
19 board adopted a provision that we allow participation
20 in our 403(b) plan to employees who have served either
21 a thousand -- or are expected to serve either a
22 thousand hours during the course of the year or, on an

1 annualized basis, 20 hours per week. And you
2 authorized us to do the appropriate provision.

3 After working with the plan provider and
4 working with our outside counsel on this, their review
5 and their recommendation was that we adopt the
6 annualized 20-hour-a-week provision as the better
7 provision. Requiring the thousand-hour minimum before
8 people were eligible might have thrown people into the
9 January 1st of the next before they could actually
10 enroll for regular employees.

11 We want regular employees to be available to
12 be eligible to enter the 403(b) plan from the first day
13 that they worked. So the recommendation from outside
14 counsel and from our plan provider was that we use the
15 option that you all authorized, which was the
16 annualized 20-hour-a-week option for eligibility to
17 participate.

18 CHAIRMAN GARTEN: That would be the sole
19 option?

20 MR. JEFFRESS: The sole option. So for an
21 intern who is here full-time for three months, on an
22 annualized basis that is not 20 hours a week. They

1 would not be eligible. But for a full-time employee
2 who comes on board in December, they could still sign
3 up right away because they're expected to work more
4 than 20 hours a week.

5 CHAIRMAN GARTEN: Any other questions on this
6 subject matter? I think it would -- this is one I
7 think we should move on and advise the board. And I'll
8 take a motion recommending to the board that we go with
9 the single option described by Charles.

10 M O T I O N

11 MR. MEITES: So moved.

12 MS. CHILES: Second.

13 CHAIRMAN GARTEN: All right. Approved.

14 Thank you.

15 MR. JEFFRESS: Yes, sir.

16 CHAIRMAN GARTEN: We've come to our next item
17 on the agenda. And Jeff, will you please identify
18 yourself?

19 MR. SCHANZ: Yes. I'm Jeff Schanz, the
20 inspector general of the Legal Services Corporation.
21 I'm pleased to be here today.

22 CHAIRMAN GARTEN: We're pleased to have you

1 here.

2 MR. SCHANZ: Thank you.

3 CHAIRMAN GARTEN: Proceed.

4 MR. SCHANZ: I have nothing for the audit
5 committee today. I think as a general proposition,
6 though, I would like to be included on the agendas for
7 the matters that we have been working with if they need
8 to be ventilated for the full board.

9 So as a matter of process, I made sure that I
10 was injected into the agenda for future meetings when
11 we do have substantive issues to discuss prior to the
12 board meeting.

13 CHAIRMAN GARTEN: All right. Do you want this
14 inserted automatically in the agenda, and then you can
15 make the same statement?

16 MR. SCHANZ: Yes, I do. Yes, I do.

17 CHAIRMAN GARTEN: Fine. We'll --

18 MR. SCHANZ: That's my intent here. I also
19 would like to thank all the hard work that was done by
20 the outside auditors and Dutch and his staff to be able
21 to come up with a very, I think, successful
22 no-disclaimer qualified -- no qualification, clean

1 opinion on the annual financial statements. That's a
2 huge effort.

3 CHAIRMAN GARTEN: And I would echo those
4 statements and thank them very much for all their
5 efforts and cooperation and timely reporting to us. It
6 worked out very well.

7 MS. CHILES: I have one question.

8 CHAIRMAN GARTEN: Jonann has a question.

9 MS. CHILES: I have one question, and I don't
10 know if you can answer it or not. Is the Inspector
11 General's Office following up on any of the
12 deficiencies that were cited in the audit?

13 MR. SCHANZ: We will be, yes. That's all part
14 of our planning process. We consider these findings.
15 We consider anything that GAO -- as binding. As you
16 know, GAO is currently performing a third review of the
17 LSC.

18 So yes, we will follow up on those and make
19 sure that the board is notified that successful
20 completion -- much like we do with our own internal
21 audits. The management gets a chance to respond to the
22 findings. We will assess the validity of that and

1 maybe do some limited testing.

2 As you know, I don't have that large of a
3 staff to do GAO's work. But I will follow up on some
4 of the recommendations from the independent auditors as
5 well as GAO.

6 MS. CHILES: Okay. You'll follow up and then
7 you'll be reporting to the board?

8 MR. SCHANZ: Correct.

9 MS. CHILES: Do you know if GAO is addressing
10 any of the deficiencies that were cited in the audit?

11 MR. SCHANZ: They haven't issued a draft
12 report yet. So officially, we don't know anything.

13 MS. CHILES: Okay. Thank you.

14 CHAIRMAN GARTEN: Any other questions?

15 (No response.)

16 CHAIRMAN GARTEN: Thank you very much, Jeff.

17 MR. SCHANZ: Thank you.

18 CHAIRMAN GARTEN: All right. We now will go
19 to the delayed item 5, review of LSC's IRS Form 990 for
20 fiscal year 2009. David, identify yourself, please.

21 MR. RICHARDSON: Yes, sir. For the record,
22 I'm David Richardson. I'm the treasurer/comptroller of

1 the Corporation.

2 Unfortunately, the 990 is being downloaded
3 right now and copied, so I don't have a draft to give
4 you. But I will have it for you by 1:00.

5 CHAIRMAN GARTEN: All right. Why don't you
6 briefly -- and the board will have it -- briefly advise
7 us of the change in the form this year.

8 MR. RICHARDSON: In your book, there is a
9 draft with a number of the attachments. And you will
10 see that there's a great many changes. As we look
11 through, you'll see that --

12 CHAIRMAN GARTEN: What page are you looking
13 at?

14 MR. RICHARDSON: I'm sorry, at page 63.
15 Usually there's about a page and a half of questions
16 that need to be answered. This year you'll see that
17 there's a great many more.

18 The checklist has been expanded. It includes
19 a checklist dealing with prior year obligations. It
20 deals with gifts. When you look on page 69 and 68,
21 you'll see that there's a great deal of questions
22 dealing with governance, management, and disclosures.

1 There's actually two pages of that.

2 You talked about policies of the Corporation
3 that you go through and have to answer to. And then
4 there's different additional disclosures in regards to
5 websites and information that's available on websites.

6 A new requirement is that 990 -- well, it
7 always has to be available, and this asks, how is it
8 available? So you can do it on a website, another
9 website, or upon request. We've been doing it upon
10 request.

11 When you look at page 70, you'll see that the
12 compensation of officers, directors, trustees, key
13 employees, this has been expanded substantially. And
14 you'll see that it's quite a different format there.

15 We have to provide not only for the board but
16 for each of the officers, the president, and key
17 directors. We have to report their salaries and
18 benefits that are paid. And when there is compensation
19 over \$150,000, it has to be reported on a Schedule J,
20 which is new, definitely new, to the 990.

21 Independent contractors, we've always reported
22 independent contractors. The threshold before was

1 50,000. Now it's 100,000. It actually increased.

2 Our financial statements are redistributed and
3 shown in here also. So while it doesn't match our
4 information directly, we reconcile the 990 to our
5 financial statements and to our budget reports so that
6 we make sure everything is in balance.

7 There's questions dealing with -- that's not
8 in here -- with fundraising, educational processes,
9 where you're a hospital, where you have training or
10 mentoring. So much more inclusive, much more
11 information than has ever been put in before.

12 CHAIRMAN GARTEN: David?

13 MR. RICHARDSON: Yes, sir?

14 CHAIRMAN GARTEN: This will necessitate you
15 obtaining information from the directors to a greater
16 extent than in previous years?

17 MR. RICHARDSON: Right. I mean, for instance,
18 the timekeeping that we asked that you provide to us
19 goes into here as to how much time you're spending on
20 LSC matters.

21 CHAIRMAN GARTEN: Tom?

22 MR. MEITES: I have an observation about

1 national tax policy. I think this whole thing is
2 outrageous, that not-for-profits, by and large, are run
3 by volunteers who are doing good works. But because a
4 few prominent not-for-profits blotted their copybook,
5 every not-for-profit in the United States has to fill
6 out this horrendous form at considerable expense.

7 Now, I have searched my soul to find any
8 social benefit for this because, as Mr. McKay will tell
9 you, there will always be scoundrels. And whatever
10 form you come up with, they'll find a way to evade it.

11 The only possible utility that I see is
12 perhaps, by having to answer these questions, some
13 not-for-profits will do a better job. But I think
14 we're already doing a very good job, and I'm very sorry
15 you have to spend your time on this.

16 CHAIRMAN GARTEN: Well, we're faced with what
17 every other nonprofit organization is faced with. So
18 we'll proceed, and I'm sure you'll get the cooperation
19 of everybody. And all of us have been keeping time
20 records or have been able to reconstruct them, and it's
21 something for future boards to take note of.

22 MR. RICHARDSON: One of the things that we're

1 going to try to do is to have this done at each
2 meeting, have the time that the board has spent the
3 prior three months, so that we can stay on top of it.
4 But that's something that we will deal with the next
5 board on to see -- to get the information.

6 And with you, the possibility that you may not
7 be here next September, we're going to need your time
8 records for next year's report even though you're not a
9 director at that time because one of the things here is
10 you report the current directors, and then you also
11 report the previous directors, or any change in
12 management you've got to put in the report also.

13 CHAIRMAN GARTEN: All right. Have they issued
14 an accompanying explanation or instructions to this
15 form?

16 MR. RICHARDSON: I've not seen the complete
17 form yet. And that's one of the problems. It's a
18 draft --

19 CHAIRMAN GARTEN: I'll think you'll be getting
20 it. And it's up to the chair at that time to decide
21 whether this is something we want to do on a
22 three-month basis or supply it annually. I personally

1 would prefer to do it on an annual basis rather than
2 have to do it four times a year. I will leave it up to
3 Tom.

4 MR. RICHARDSON: I may be able to do a
5 little -- well, we'll be able to do a little better job
6 reviewing. Once I get the form today, I will provide
7 it to you, Mr. Garten. And perhaps if we can spend
8 five minutes on it tomorrow during the board meeting
9 and give you a little better overview of some of the
10 information.

11 CHAIRMAN GARTEN: Is that all right, Frank?

12 MR. STRICKLAND: Sure.

13 CHAIRMAN GARTEN: Okay. All right. Anything
14 further? Any questions regarding this matter?

15 (No response.)

16 CHAIRMAN GARTEN: If not, we've arrived
17 at -- and you've made your public comment.

18 MR. MEITES: I have made my public comment.

19 CHAIRMAN GARTEN: We've arrived at public
20 comment. Do we have anybody that would like to appear
21 before us?

22 (No response.)

1 CHAIRMAN GARTEN: If not, I'll entertain a
2 motion to adjourn.

3 M O T I O N

4 MS. CHILES: Move to adjourn.

5 MR. MEITES: Second.

6 CHAIRMAN GARTEN: Meeting adjourned.

7 (Whereupon, at 12:15 p.m., the audit committee
8 meeting was adjourned.)

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